

## Message from Co-President Wakatsuki

# Unlocking the growth potential of our platform to achieve unlimited shareholder value creation



**Yuichiro Wakatsuki**

Director, Representative Executive Officer & Co-President

### Building a portfolio of quality assets and maximizing their potential

During the Medium-Term Plan (FY2021-2023),  we navigated through a highly challenging business environment characterized by sharp increases in raw material prices, recording of provisions in China, and the application of hyperinflationary accounting in Türkiye among others. Yet we have met our original financial guidance almost every year through proactive and agile responses to these rapidly changing circumstances. A significant contributing factor has been the effective combination of each asset's resilient business model and earnings capability, which are less influenced by market conditions. In other words, we generated meaningful cash by leveraging the low capex requirements of the businesses, capturing resilient market demand, and implementing continuous cost control measures coupled with price increases. This approach has enabled us to maintain and expand our market share across regions.

Our performance over the past three years highlights our ability to consistently deliver results across our diverse business portfolio, regardless of respective challenges.

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This demonstrates the inherent stability of our Company as a collection of assets that reliably generate cash, a key feature of our [Asset Assembler model](#). Unlike the flashy headlines often associated with mergers and acquisitions, our inorganic growth strategy focuses on low-risk and sustainable EPS compounding by steadily acquiring quality assets.

For organic growth, we promote autonomy and accountability among our [exceptional management teams leading these assets](#), a strategy that can fully unlock their potential.

In essence, our Asset Assembler model pursues sustainable EPS compounding through both organic and inorganic strategies.

### Our Asset Assembler model: Foundation of our prudent management and risk-averse approach

What lies at the heart of our Asset Assembler model? It is the prudence and risk aversion that define our management style. When selecting M&A targets, we consistently exercise "sound vigilance," thoroughly avoiding risks and carefully evaluating each opportunity. These principles are aligned with my thought process and the experiences I gained as an investment banker managing M&A advisory services. With MSV as our shared compass, we make decisions by combining Mr. Wee's operational experience with my expertise in the capital markets. This approach allows us to balance risks and returns, enabling the pursuit of safe and sustainable EPS compounding.

Our prudence extends to selecting quality assets, especially when evaluating the performance of exceptional CEOs. We analyze their leadership track records; CEOs with proven success are granted more authority, fostering autonomous growth. For example, since Patrick Houlihan became CEO in 2009, DuluxGroup, which joined our Group

$$MSV = M(\text{EPS}) \times M(\text{PER})$$

in 2019, had consistently increased its market share, EPS, and stock price as a publicly traded company. When executing our M&A strategy, we considered these excellent performances and the solid organizational structure, including a robust management succession plan. Our judgments are not solely based on individual trust in a CEO, but are focused on meticulously assembling quality assets with strong governance.

Our deep-rooted commitment to MSV as a shared judgment basis enables us to make prudent decisions while avoiding risk. As the majority shareholder, Directors, and Executive Officers are all aligned in the pursuit of MSV, we can execute advanced and swift management decisions. More importantly, our success stems from being an assembly of leaders who embody Integrity, a value I hold in high regard. We prioritize substance over form in our open and vibrant communication. As a cohesive Corporate Group united by our commitment to Integrity, we continue to pursue the safe and sustainable compounding of EPS.

### Pursuing MSV with no limits, adopting a long-term perspective beyond a three-year timeframe

Since 2018, our Company has accelerated revenue and profit growth by driving both organic and inorganic growth, consistently pursuing MSV as our sole mission. In January 2022, coinciding with our international secondary offering, we unveiled our Asset Assembler model for achieving MSV. Amid the accelerated evolution of our model, we separated the functional units of Japan Group from NPHD, the holding company, in a shift towards lean headquarters and established Nippon Paint Corporate Solutions (NPCS) in 2022. This marked our transition away from a Japan-centric focus and the mindset entrenched in our holding company, redefining Japan Group as one of our important profit centers within the broader portfolio. Despite the challenges and some repercussions associated with this shift, we succeeded in fostering a shared sense of urgency across the entire Group, along with a resolute commitment to avoiding unnecessary expansion of bureaucratic structures. This key transformation represents a significant

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milestone achieved during our Medium-Term Plan (FY2021-2023).

In our [Medium-Term Strategy](#), released in April 2024 as an extension of these corporate actions, we revisited our strengths as Asset Assembler, focusing on sustainable EPS compounding across both organic and inorganic initiatives. We guided for a medium-term consolidated compound annual growth rate (CAGR) of 8-9% in revenue and 10-12% in EPS, based on our 2023 business portfolio, which includes our Kazakhstan operations and two businesses in India. While individual assets will continue to formulate and implement 3-4-year medium-term plans, we intentionally decided against setting uniform 3-year guidance at the consolidated Group level. This decision was made to ensure the understanding among capital market participants about the inherent growth potential within our portfolio, while keeping in mind the challenges in quantifying our “unlimited” upside from EPS compounding through safe and continuous M&A endeavors. Regarding our inorganic growth strategy, we aim to acquire companies in any region, business area, or size, provided they present low risk and offer good returns. We are also committed to short-term delivery, while pursuing long-term MSV, without being confined to a three-year timeframe.

### Enhancing capital market recognition and expectations as EPS Compounder

Why is our Group committed to maximizing EPS rather than net income? Simply put, EPS-dilutive share issuance can undermine shareholder value even if net income increases. By fostering recognition as EPS Compounder and elevating the capital markets' expectations, we aim to link this to the maximization of PER.

Reflecting on the past few years, we have consistently compounded EPS, but our [stock price](#) has not risen as

expected. We attribute this to market anxieties over the so-called China risk, as well as the capital markets' underestimation of our organic growth potential and lack of confidence in the feasibility of M&A that could lead to additional safe EPS compounding. [To maximize PER](#), we believe it is crucial to enhance understanding of our business model, track record, and the future potential of our current portfolio, along with instilling confidence in the reliability of EPS compounding through M&A. We plan to diligently undertake these efforts by simultaneously building up our performance, expanding engagement opportunities, and enriching our disclosure materials.

### Implementing autonomous and decentralized management to encourage best-in-class talent to excel

Operating under our Asset Assembler model, we advocate for autonomous and decentralized management, encouraging independent growth within each of our partner companies. Central to this approach is a robust talent management strategy that allows best-in-class talent to excel. We believe that delegating authority to quality CEOs, who deeply understand the unique attributes and demands of their local regions and businesses, contributes more to MSV than centrally directing and managing

partner companies from the parent company. Each partner company proactively harnesses the management resources within our platform, such as financial strength, technological capabilities, brand power, distribution network, and purchasing power. As each partner company strives for growth and occasionally learns from one another voluntarily, the holding company maximizes the potential of assets by encouraging and inspiring our top-notch CEOs to excel through fully leveraging our platform.

For instance, DuluxGroup's approach to sustainability, particularly its advanced thinking on environmental and safety aspects, provides numerous examples that the entire Group should reference. Hence, instead of unnecessarily reinforcing sustainability personnel in our Company in Japan, we have appointed a DuluxGroup expert as the global leader of the Environment & Safety team. This approach allows us to build and promote a system to advance sustainability in compliance with the regulations and social customs of each region and market. By leveraging the Group's exceptional human resources, we are accelerating practical discussions and initiatives on sustainability across our Group.

This approach has been a strong magnet, attracting CEOs from companies like DuluxGroup and Betek Boya. As these CEOs experience the superior platform our Group offers, they actively communicate the benefits of joining

# PER

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us both internally and externally. Their messages, backed by personal experience, are persuasive and help spread our Group's reputation to potential future partners. In the global M&A market, Japanese companies are often viewed as secure and trustworthy acquirers. This perception, combined with the prestige of the Japan brand, positively influences our M&A activities. Leveraging these benefits, we continue to add excellent and reliable assets.

### Promoting sustainability through the advantages of autonomous and decentralized management

As our perspective evolves as Asset Assembler, we have rigorously instilled in the Group our shared understanding that sustainability is a prerequisite for achieving MSV, not an objective in itself. This principle is clearly stated in our Basic Policy on Sustainability, which was approved and announced at the Board of Directors meeting in March 2023. At the same time, we remain vigilant as a Group since societal demands for corporate sustainability are constantly evolving, with some potentially impacting EPS and PER. For instance, society and customers require responses to carbon neutrality and the measurement of greenhouse gas emissions (Scope 3). If not properly managed, these requirements could undermine societal credibility and customer trust, potentially resulting in reduced sales. However, by accurately understanding changes in societal and customer needs and responding swiftly, we can seize golden opportunities to create new innovations and revenue streams, which are crucial in our pursuit of MSV.

Under the banner of autonomous and decentralized management, our sustainability strategy as Asset Assembler is led by each partner company, which is deeply familiar with the needs of society and customers in their respective countries and regions. Partner companies formulate their own sustainability strategies, indices, and roadmaps toward achieving MSV, and they carry out initiatives aligned with their businesses. In this context, NPHD proactively handles areas where information collection and disclosure are necessary on a consolidated basis, based on requests from external stakeholders. However, we do not uniformly set sustainability targets for partner companies. For example, DuluxGroup has been actively promoting diversity and has elevated its ratio of women in managerial positions from 18% ten years ago to

over 30% now. This is the result of the cultural and social embrace of diversity and inclusion (D&I) in Australia, where DuluxGroup is based, combined with a shift in awareness among senior executives, which has driven the hiring and promotion of women to managerial positions. We do not compare the levels achieved within the Group or set uniform targets without considering individual backgrounds and circumstances. Each sustainability team leads our Group's initiatives in their respective fields while sharing effective methods, know-how, and successful experiences. By taking these actions, we aim to meet the expectations of stakeholders such as customers and society in our quest for MSV.

### Unlocking the growth potential of our platform to achieve unlimited shareholder value creation

We have come to believe it is possible to pursue, in a sense, unlimited upside in shareholder value creation. By capitalizing on the advantages of our platform, we aim to maximize EPS in both the short and long term. In doing so, we strive to be recognized in the capital markets as EPS Compounder that can sustainably achieve highly secure EPS compounding. By elevating the capital markets' expectations for our sustainable EPS compounding, we create a firm link to the maximization of PER, all with the goal of achieving MSV from a long-term perspective.

We are committed to achieving MSV through active engagement with our investors and look forward to exceeding your expectations.

Director, Representative Executive Officer & Co-President